Changes to Family Housing Processes - Privatization

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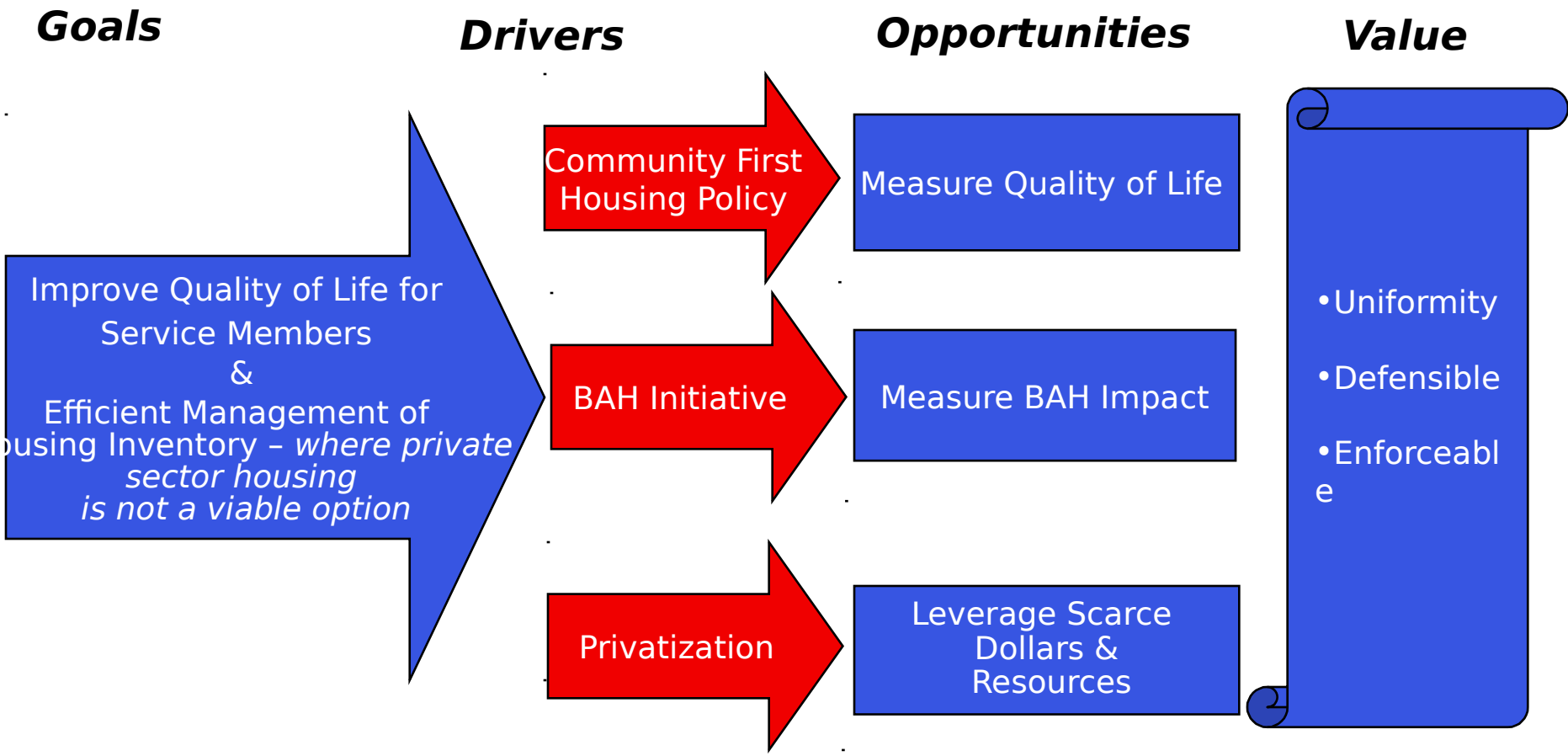
Changes to Housing Processes with Privatization

- Changes to Military Housing
- DoD's Housing Policy
- Housing Requirements Determination
- Privatization

Changes to Military Housing



DoD's Housing Policy

- Since the early Eighties, the Department's housing policy has been:
  - *Look to the Community First to provide safe, quality, affordable, housing*
- Where the local community is unable to provide an adequate supply of available rental housing, housing will be provided based on a verifiable need using
  - *Privatization (in most Conus locations)*
  - *Military construction where necessary, e.g. Overseas*

Programmatic Goals & Metrics

- Eliminate all inadequate housing units from government inventory
- Increase allowance to improve access to quality housing by covering *average* housing costs for service members, who live in private-sector housing, i.e. ZERO OOP
- Use an enhanced housing requirements determination process to determine verifiable need for military housing, results may indicate
  - Deficit reduction, *or*
  - Surplus
- Elimination of inadequate units is included in the -

  "President's Management Agenda"

Housing Requirements Determination Policy

- 8 January 2002, *Deputy Secretary* signed new guidance requiring
  - use of a consistent DoD-wide methodology for calculating the need to retain / build government housing based on:
    - Market segmentation
    - Bedroom requirement
    - Market area
    - Floor requirement
    - Transition strategy
    - **The objective is to maximize reliance on private sector housing in local communities consistent with the needs of the mission and military families and to determine where and if government provided housing is needed**

Housing Requirements Determination

- The decision to retain or build military family housing is based on:
  - Reasonableness of assumptions in order to achieve the right answer taking into consideration such things as:
    - Commute distance
    - Quality and availability of private sector housing
    - Quality of schools, rates of crime, perceived good neighborhoods
    - Market response
- Building housing to meet housing deficits may be limited by the availability of resources

Housing Requirements Methodology

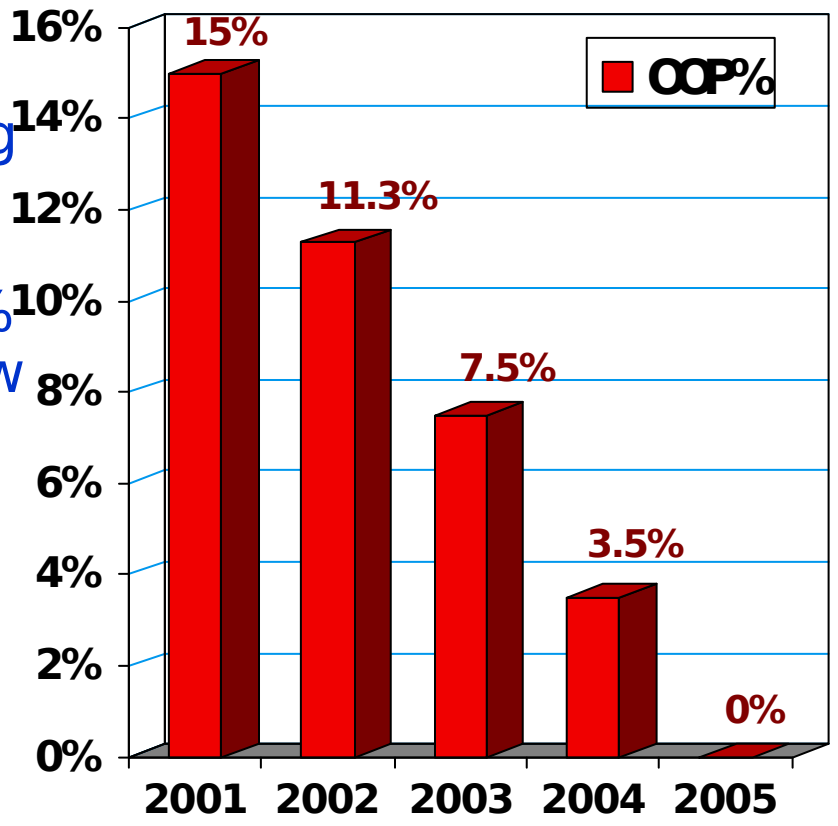
- How many military families are stationed at the installation?
  - Subtract out married couples, unaccompanied and homeowners
- How many families will need government provided housing?
  - Military community
  - Key and Essential
  - Historic housing
  - Quality of life
- Can local community provide safe, quality, affordable housing within a reasonable commute?
  - Community Housing Shortfall?
- Floor Requirement *plus* Community Housing Shortfall *equals* Housing Requirement

Factors Affecting Results

- Supply Side
  - Subjectivity associated with unsuitable/suitable criteria
  - Market exclusion areas: BAH vs. HMA
  - Market response
- Demand Side
  - Assumptions regarding where and how members live: e.g. childless families and price/bedroom segmentation
  - Estimation of civilian competition

BAH Initiative

- By 2005, the average military member will have ZERO out of pocket housing costs
- By 2007, an estimated 90% of military families will draw BAH
- BAH in combination with privatization, *is* providing Service members with greater housing choices



Reduction in Out of Pocket (OOP

BAH Calculation

- U.S. BAH is based on *median* housing costs (half of members spend more than median)
- Even median member will have some out-of-pocket expense

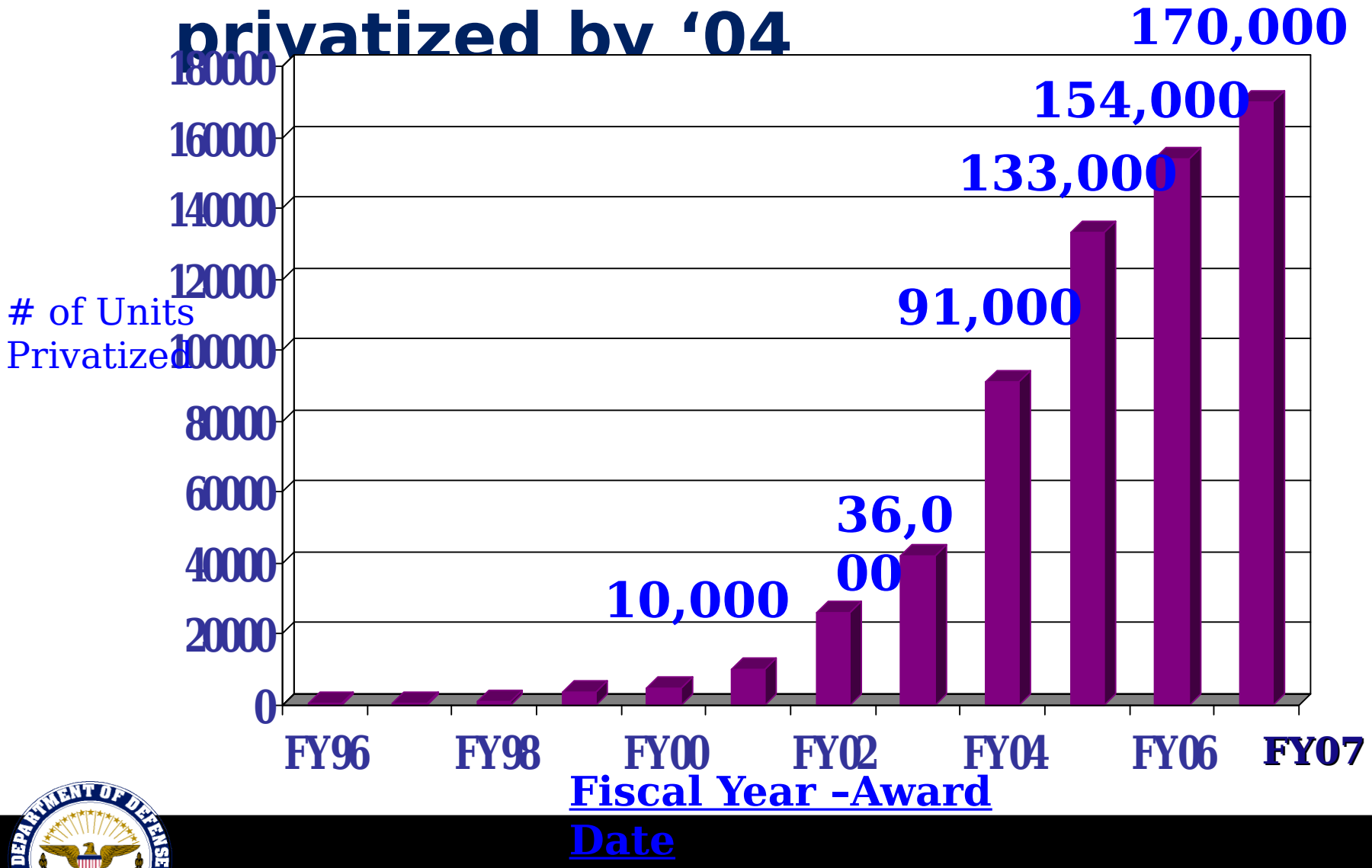
Privatization

- Privatization is the future – over 75% of existing U.S. inventory will be privatized
  - 67% of families in private sector housing
  - 23% of families in privatized housing
  - 10% of families in government-owned housing

*FY 2004 Inventory Estimates

	Govt.-Owned Inventory	# Inadequates	Percentage Inadequate
Army	80,421	**34,593**	43%
Navy	50,403	**18,227**	36%
Marine Corps	16,855	**8,818**	52%
Air Force	77,906	**43,281**	56%
DoD	**225,585**	**104,919**	**47%**

Goal: $91 K housing units privatized by ‘04



MHPI Project Scope Requirements

- Serves Junior Enlisted first
- Government Financial Threshold Requirements
  - At least 3 to 1 leverage – for every dollar appropriations, the government gets at least 3 dollars of development
  - Government debt cannot exceed 50% of the total project debt
  - Must have justifiable Life cycle Cost Analysis
- Must Attract Private Sector Participation

Mechanics of a Privatization Project

- Based on Housing Requirement -
  1. Project is Awarded to Private Sector Developer
     - Developer finances project based on projected income stream
       - Construction & permanent financing
       - Government equity, loan and / or guaranty
  2. Housing Units are conveyed to Developer
     - Operation & maintenance responsibilities transfer at time of award
  3. Service Members receive BAH *plus* Utilities Allowance
     - Service Member Choice
       - Signs Lease, or
       - Seeks other housing options
  4. Developer responsible for all property management functions

Continued Improvements

- Understanding the difference between the BAH process and the HRMA process
  - Identifying median housing costs versus counting houses
  - Annual surveys versus an average 3 year reporting frequency
- Automated Housing Referral System
  - Enables Military Members (and their families) to search for suitable and available rental housing prior to departing the old installation, and
  - Supplies rental listings for the Basic Allowance for Housing (BAH) program through seamless integration with the BAH MHO web-site.
- Gather and maintain better demographic information regarding our Service Members
  - Surveys?

Roles and Responsibilities

- OSD's responsibility (P&R & H&CS)
  - Review data to make sure it makes common sense
  - Compare results
  - Analyze trends
- Local Housing Office/Installation Leadership:
  - Help identify viable market areas based on commute distance, quality, safety
  - Exclude undesirable areas
  - Work with BAH and HRMA contractors to assess local market conditions
  - Review assumptions/conclusions drawn by both the BAH Contractors and the HRMA Contractors
  - Address concerns raised by military members

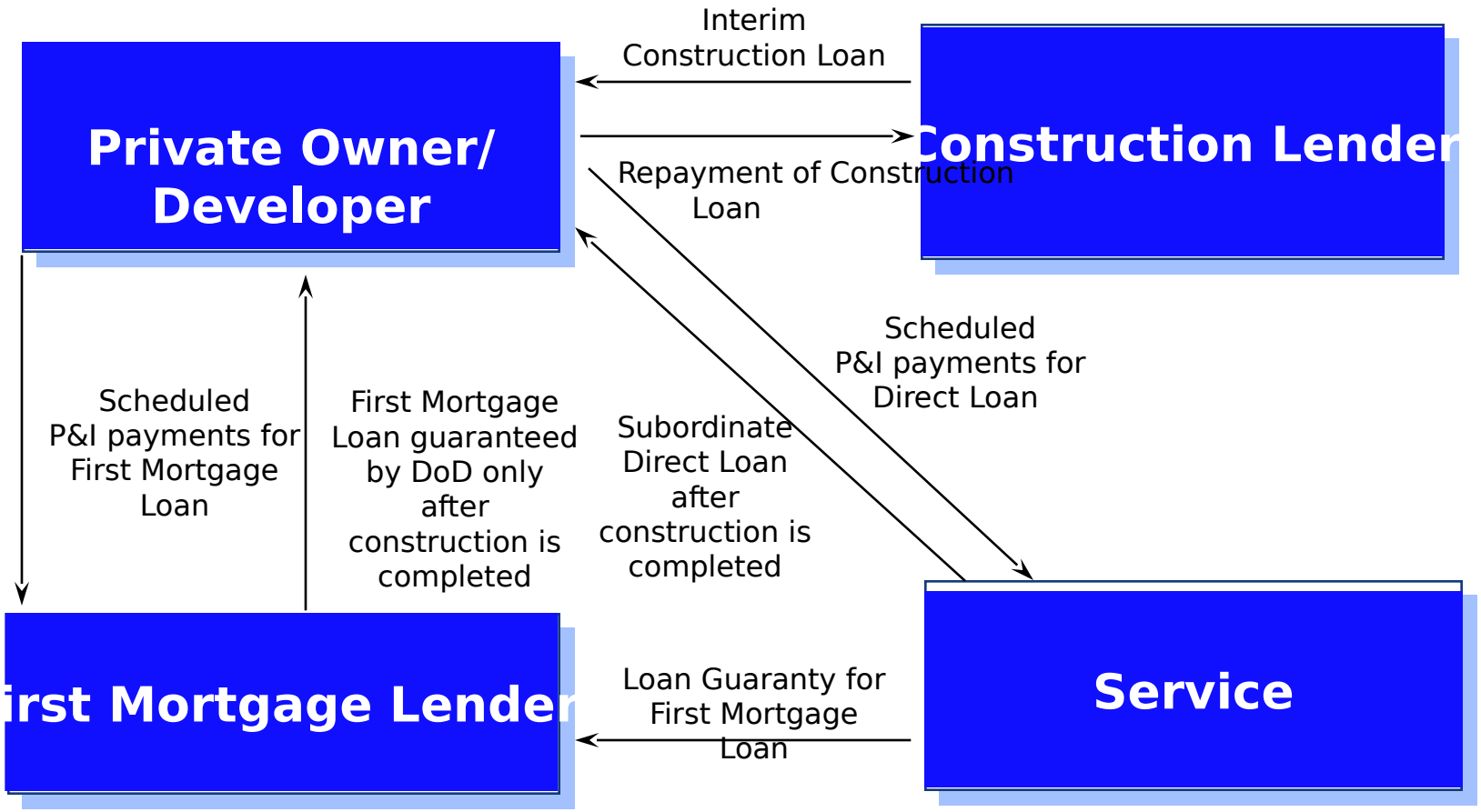
Housing Information Minister

"Thank you for my new Housing job! Did you see the house Saddam was living in at the end?? Your junior families live in much better houses!! Check out our enlightened website:"

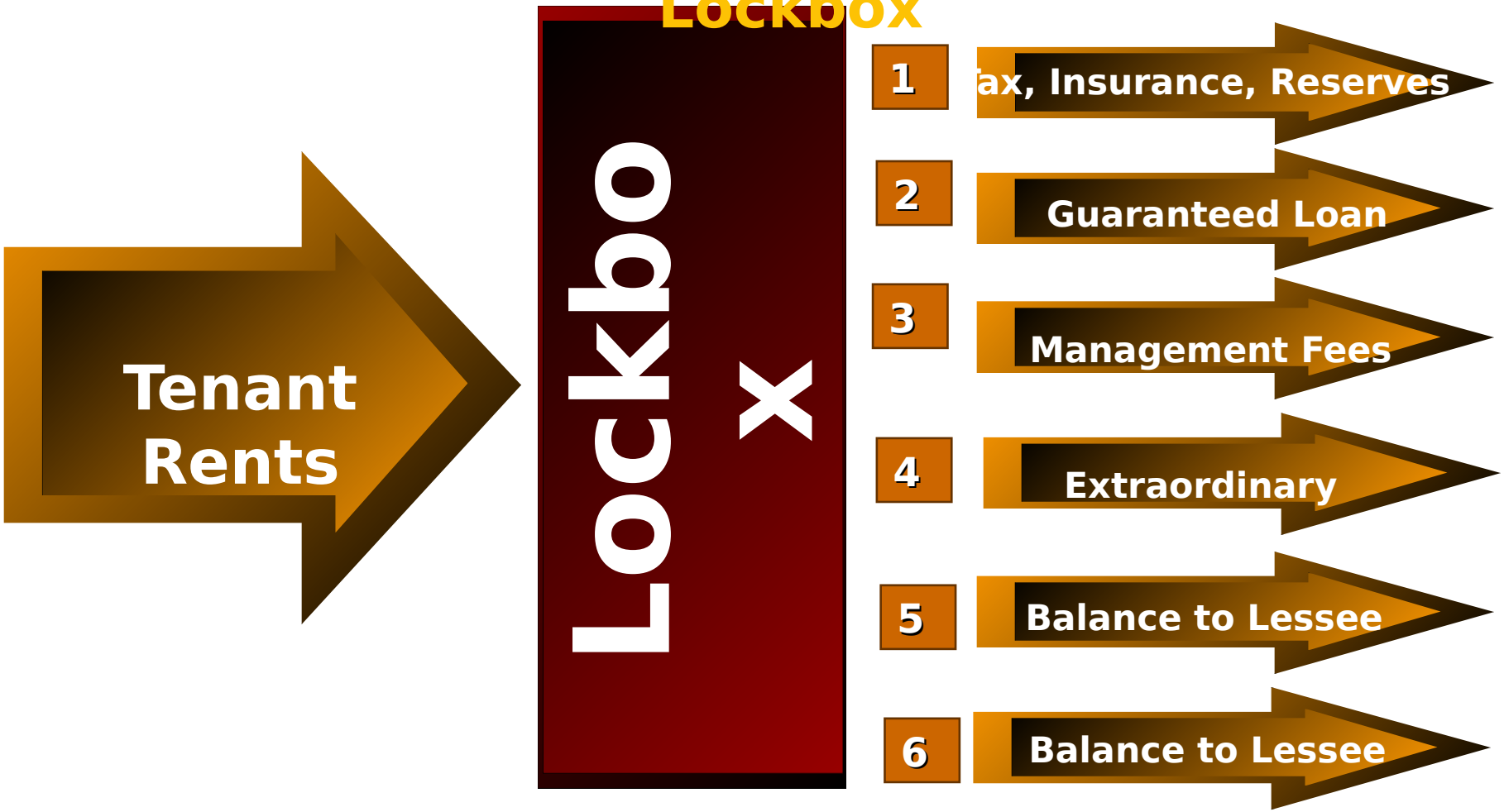
www.acq.osd.mil/housing

Back-up Slides

Financing Characteristics of a Privatization Project


Private Owner/ Developer
Construction Lender
Service
irst Mortgage Lender
Interim Construction Loan
Repayment of Construction Loan
Scheduled P&I payments for Direct Loan
Subordinate Direct Loan after construction is completed
Scheduled P&I payments for First Mortgage Loan
First Mortgage Loan guaranteed by DoD only after construction is completed
Loan Guaranty for First Mortgage Loan

Priority of Disbursements/Payments from Lockbox



BAH Standards

BAH Housing Standards Showing Interpolation Between Anchors

With Deps Grade	STD	Plus this Percent of Difference towards next Higher Standard*	
E-1	2br-ap	--	
E-2	2br-ap	--	
E-3	2br-ap	--	Anchor
E-4	2br-ap	39%	
E-5	2br-th	--	Anchor
O-1	2br-th	11%	
O-2	2br-th	98%	
E-6	3br-th	--	Anchor
W-1	3br-th	1%	
E-7	3br-th	36%	
O-1E	3br-th	44%	
W-2	3br-th	52%	
E-8	3br-th	75%	
O-2E	3br-th	93%	
O-3	3br-th	98%	
W-3	3br-sf	--	Anchor
E-9	3br-sf	16%	
W-4	3br-sf	22%	
O-3E	3br-sf	26%	
W-5	3br-sf	48%	
O-4	3br-sf	58%	
O-5	4br-sf	--	Anchor
O-6	4br-sf	--	
O-7	4br-sf	--	

Without Deps PG		Plus this Percent of Difference towards next Higher Standard**	
E-1	1br-ap	--	
E-2	1br-ap	--	
E-3	1br-ap	--	
E-4	1br-ap	--	Anchor
E-5	1br-ap	67%	
O-1	2br-ap	--	Anchor
E-6	2br-ap	7%	
W-1	2br-ap	31%	
E-7	2br-ap	53%	
O-2	2br-ap	83%	
O-1E	2br-th	--	Anchor
W-2	2br-th	19%	
E-8	2br-th	20%	
O-2E	2br-th	44%	
E-9	2br-th	51%	
W-3	2br-th	54%	
O-3	2br-th	64%	
O-3E	3br-th	--	Anchor
W-4	3br-th	9%	
O-4	3br-th	40%	
W-5	3br-th	45%	
O-5	3br-th	63%	
O-6	3br-sf	--	Anchor
O-7	3br-sf	--	

* For example: Standard for E-6 With Dependents is 3br-th and standard for E-7 With Dependents is 3br-th PLUS 36% of local cost difference bewteen 3br-th and 3br-sf.
ap = Apartment th = Townhouse/Duplex sf = Single Family Detached